

Message Text

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FM SECSTATE WASHDC
TO AMEMBASSY LISBON IMMEDIATE

C O N F I D E N T I A L STATE 011282

LIMDIS GREENBACK

E.O. 11652:

TAGS:

SUBJECT: FINANCIAL ASSISTANCE FOR PORTUGAL

REF: LISBON 0363
LISBON 0146

1. TREASURY PROVIDES THE FOLLOWING WHICH YOU MAY WISH TO
DRAW UPON IN YOUR TALKS WITH MINISTER SOARES IN THE
MORNING.
2. PORTUGUESE APPEAR TO BE RAISING ISSUES ON POINTS THAT
WE BELIEVE HAD BEEN AGREED UPON BY THE PRIME MINISTER,
FINANCE MINISTER AND GOVERNOR SILVA-LOPES DURING UNDER
SECRETARY'S YEO'S VISIT TO LISBON. WHILE OPTIONS 3 AND 4
MAY INVOLVE SOME ADDITIONAL EFFORTS IN THEIR IMPLEMENTATION,
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U.S. NEVER VIEWED BIS AS A PARTY TO THIS AGREEMENT NOR AS
ESSENTIAL TO ITS EFFECTIVE CONCLUSION. TREASURY IS DIS-
APPOINTED BIS OFFICIALS WERE NOT MORE POSITIVE IN THEIR
DISCUSSIONS WITH SILVA-LOPES AND YEO WILL, AS PROMISED,
SPEAK TO BIS IN THE NEAR FUTURE TO ENCOURAGE BIS TO
COOPERATE IN ANY WAY POSSIBLE WITH THE GOP OTHER DEALERS
OR AGENTS ALSO MIGHT BE APPROACHED BY GOP TO ACHIEVE IM-

PLEMENTATION SATISFACTORY TO PO,TUGAL OPTIONS 3 AND 4.

3. EARLY SIGNATURE OF ESF ARRANGEMENTS IN ACCORDANCE WITH PRINCIPLES AS AGREED IN LISBON IS IN INTEREST OF PORTUGAL. THERE CONTINUES TO BE SUBSTANTIAL BIPARTISAN POLITICAL SUPPORT IN THE U.S. CONGRESS FOR THE ARRANGEMENTS AS AGREED AND ANYDILUTION OR SUBSTANTIVE MODIFICATION IN THOSE PRINCIPLES COULD CREATE GENUINE POLITICAL PROBLEMS FOR BOTH THE SHORT-TERM ESF CREDIT AND THE MEDIUM-TERM MULTILATERAL PACKAGE. IT

WILL BE DIFFICULT TO EXPLAIN SATISFACTORILY TO CONGRESS FURTHER DELAY AND PROBABLY IMPOSSIBLE TO PRESERVE SUBSTANTIAL SUPPORT FOR THIS CREDIT IF THE TERMS ARE CHANGED SIGNIFICANTLY.

4. IN AN EFFORT TO ACHIEVE FINAL AGREEMENT PROMPTLY, WE CAN RESPOND POSITIVELY TO A NUMBER OF SUGGESTIONS IN REFTEL A , AND ARE HOPEFUL THIS ADDITIONAL FLEXIBILITY WILL BE VIEWED IN THE SPIRIT OF COOPERATION THAT WAS EVIDENT IN THE LISBON MEETINGS.

5. CONSISTENT WITH UNDER SECRETARY YEO'S COMMITMENT TO COME UP WITH "MORE ARTFUL" DRAFTING OF THE SUBSTANCE OF THE INFORMATION PROVISION CITED IN PARA. 1A OF REFTEL, TREASURY SUBSTANTIALLY MODIFIED THE LANGUAGE AS PROVIDED IN ITS CABLE OF JANUARY 6. TREASURY IS PREPARED TO MODIFY LANGUAGE FURTHER TO READ AS FOLLOWS: "ANY DRAWING ON THE LINE OF CREDIT PROVIDED BY THIS AGREEMENT SHALL BE MADE CONFIDENTIAL

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ONLY AFTER PRIOR CONSULTATION BETWEEN THE PARTIES, AND THE GOVERNOR OF THE BANK AND THE MINISTER OF FINANCE OF THE REPUBLIC OF PORTUGAL AND THE SECRETARY OR THE UNDER SECRETARY FOR MONETARY AFFAIRS OF THE TREASURY OF THE UNITED STATES AGREE TO CONSULT AT THE REQUEST OF ANY PARTY TO THIS AGREEMENT REGARDING THE ECONOMIC AND FINANCIAL SITUATION OF PORTUGAL AT LEAST ONCE EVERY THIRTY DAYS. THE BANK AND THE REPUBLIC OF PORTUGAL AGREE THAT, IF SO REQUESTED BY THE SECRETARY OF THE TREASURY, NO DRAWINGS SHALL BE MADE ON THIS LINE OF CREDIT UNTIL THE BANK OR THE REPUBLIC OF PORTUGAL HAS PROVIDED INFORMATION REQUESTED BY THE SECRETARY REGARDING THE ECONOMIC AND FINANCIAL SITUATION AND RELATED POLICIES OF PORTUGAL. WHERE SUCH INFORMATION IS NOT PROVIDED WITHIN A REASONABLE PERIOD OF THE REQUEST BY THE SECRETARY, THE BANK AGREES THAT TO THE EXTENT REQUESTED BY THE SECRETARY, IT WILL NOT MAKE FURTHER DRAWINGS ON THE CREDIT LINE PROVIDED BY THE ESF AND WILL LIQUIDATE PROMPTLY ANY AMOUNTS DRAWN."

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6. RE. PARA. 1B OF REFTTEL, THE FLEXIBILITY DESIRED BY PORTUGUESE OFFICIALS IS ALREADY EMBODIED IN SUBPARAGRAPH (II) OF PARA. 3 OF THE DRAFT LETTER TO SILVA-LOPES. TREASURY SECRETARY OF COURSE WOULD GIVE SYMPATHETIC CONSIDERATION TO ANY REQUEST BY THE BOP FOR DRAWINGS IN ONE MONTH IN EXCESS OF \$50 MILLION (BUT NOT TO EXCEED \$100 MILLION) TO THE EXTENT THAT DRAWINGS IN THE PREVIOUS CALENDAR MONTH WERE LESS THAN \$50 MILLION.

7. THE ESF COULD ALSO ENTER INTO AN ANTICIPATORY CURRENCY SWAP IN THE CONTEXT OF THE AGREED PRINCIPLES WITH RESPECT TO FUTURE DRAWINGS BY PORTUGAL UNDER THE IMF'S COMPENSATORY FINANCING FACILITY TO WHICH PORTUGAL MIGHT BE ENTITLED TO DRAW IN JULY, 1977. SUCH A SWAP WOULD BE CONDITIONAL UPON:

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A. DRAWINGS BY PORTUGAL OF ITS FIRST CREDIT TRANCHE IN THE IMF; AND

B. RECEIPT BY THE SECRETARY OF A LETTER FROM THE IMF MANAGING DIRECTOR THAT THE IMF MANAGEMENT IS PREPARED TO RECOMMEND TO THE IMF EXECUTIVE BOARD THAT PORTUGAL BE AUTHORIZED TO DRAW ON THE COMPENSATORY FINANCING FACILITY WITHIN 90 DAYS.

THE CREDIT WOULD BE IN THE AMOUNT IT IS ANTICIPATED PORTUGAL WOULD BE ELIGIBLE TO DRAW (APPROXIMATELY \$35 MILLION); WOULD BE AVAILABLE NO MORE THAN 90 DAYS IN ADVANCE OF SUCH ELIGIBILITY; AND WOULD BE REPAID WITHIN 90-95 DAYS OF RECEIPT OF THE LETTER TO THE SECRETARY FROM THE IMF'S MANAGING DIRECTOR.

8. THERE MAY BE SOME MISUNDERSTANDING ABOUT THE IMF REFUSAL TO DISCUSS SECOND TRANCHE. AVAILABILITY OF THE SECOND TRANCHE DEPENDS OF COURSE ON PORTUGALS ABILITY AND WILLINGNESS TO UNDERTAKE FIRM POLICY COMMITMENTS ASSOCIATED WITH A HIGHER CREDIT TRANCHE DRAWING. IF PORTUGAL IS NOT IN POSITION TO UNDERTAKE THESE COMMITMENTS NOW

IT MAY BE ABLE TO DO SO IN APRIL OR MAY. THUS THE USE OF OPTION 2 OF THE ESF AGREEMENT DEPENDS UPON PORTUGAL, NOT THE IMF. WE HAVE DISCUSSED THIS SUBJECT WITH SENIOR IMF STAFF WHO ARE AGREEABLE TO DISCUSSING A SECOND TRANCHE PROGRAM WITH PORTUGAL IN MAY.

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